REPORT OF THE

INDUSTRIAL INQUIRY COMMISSION

THE FISH PROCESSING INDUSTRY AND THE GATT RULING

April 15, 1991

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This Commission was established by agreement of the parties, the United Fishermen and Allied Workers Union (the "Union"), and the Fish Processors Bargaining Association (the "FPBA"), and with the cooperation and assistance of the Ministry of Labour and Consumer Services, to inquire into certain issues left unresolved following a 16 day strike in the industry in the Summer of 1989.

TERMS OF REFERENCE

Specifically, the terms of reference of the Commission are to consider:

A. The impact of the GATT Ruling, if any, on the job security of the United Fishermen and Allied Workers Union members in the fishing industry in British Columbia.

B. The impact of the GATT Ruling, if any, on the economic viability and competitive position of the member companies of the Fish Processors Bargaining Association with the U.S. fishing industry.

C. Other issues which are deemed to be relevant by the Commission.

Further, the Commission is directed to consider all outstanding proposals of the Association and the Union, which have not yet been dropped or agreed to during the bargaining process, as set out in an exchange of proposals between the parties of August 2nd and 3rd, 1989.

COMMISSION ACTIVITY: ACKNOWLEDGEMENTS

During the course of this inquiry the Commission has had the opportunity to visit plants in the greater Vancouver area while herring was being landed and frozen, and again later when the roe was being extracted and processed. The Commission visited plants in Vancouver and Prince Rupert during the salmon season, and a small cannery in Washington State. It also had the opportunity to observe the processing of groundfish in Vancouver and in Washington. The Commission was able to meet with shoreworkers and with management personnel on several occasions in various locations. I wish to express my appreciation for the unfailing courtesy and cooperation extended to the Commission throughout, and for the time and effort devoted to giving the Commission the benefit of a wide range of views.

The Commission has received written and oral submissions from the parties. All information requested by the Commission has been provided. Elsewhere in this report there are comments on the subject of confidentiality of financial information. Those comments are intended to be of a general nature and should not be taken as any reflection on the adequacy of the financial information supplied to the Commission. I am satisfied that the aggregated information made available by the FPBA is sufficient for the purposes of the inquiry.

I wish to express my thanks to the representatives of the parties for the assistance given to the inquiry throughout. Thanks are also due to the B.C. Ministry of Labour and Consumer Services for its support of the inquiry.

I have been assisted in the inquiry by advocates appointed by the parties, Dr. Marjorie Cohen by the Union, and Dr. Edwin Blewett by the FPBA. I have benefited both from their expert knowledge and their wise counsel. Their efforts on behalf of the Commission are much appreciated. The conclusions in this report, however, are my own and should not be attributed to them.

BACKGROUND

In April 1986, Icicle Seafoods Inc. and nine other American processors of salmon and herring filed a complaint with the Office of the United States Trade Representative claiming relief under Section 301 of the U.S. Trade Act of 1974. They alleged that Canadian regulations and policies "unfairly and unreasonably" prevented them from purchasing unprocessed salmon and herring in Canada, in contrast to the position of Canadian processors who enjoyed open access to the purchase of unprocessed American caught fish in Alaska. The catalyst for the complaint appears to have been aggressive purchases of roe herring in southeastern Alaska in 1984 and 1985 by one large Prince Rupert based processor (not a member of the FPBA), and, to a lesser degree, sockeye salmon purchases by Canadian based processors in 1985. These purchases were alleged to have caused an escalation of prices and loss of tonnage needed for Alaska processing facilities, particularly in the case of herring.

The Section 301 complaint prompted the United States Government to complain to the Council of the General Agreement on Tariffs and Trade ("GATT") that the Canadian regulations which restricted American access to unprocessed herring and salmon (sockeye and pink) were contrary to Article XI:1 of the GATT, and could not be justified by either Article XI:2b nor by Article XX(g). A GATT Panel upheld the U.S. complaint in a report dated November 4, 1987.

The Government of Canada accepted the GATT ruling and revoked a prohibition on the export of unprocessed herring, which had been in force continuously since 1908, and similar prohibitions against the export of unprocessed sockeye and pink salmon which had also been in force for many years. At the same time, the Government introduced new regulations under the Fisheries Act, which required the landing in Canada of all Pacific roe herring and sockeye and pink salmon caught commercially in Canadian waters. This landing requirement was extended to coho, chum and chinook salmon as well. Sockeye and pink salmon are the species which supply the overwhelming proportion of salmon to processing plants employing unionized shoreworkers in British Columbia.

The United States challenged the landing requirement under the provisions of the Free Trade Agreement, and a FTA dispute resolution panel was constituted to address the issue. The panel's final report, dated October 16, 1989, concluded that the landing requirement contravened Article XI:1 of the GATT and was prima facie incompatible with Canada's obligations under Article 407 of the Free Trade

Agreement. The panel report intimated that some landing requirement could be justified in the interests of conservation of salmon and herring. Negotiations between Canadian and American officials followed.

The negotiations produced an agreement on regulations which were promulgated by the Canadian Government in April 1990. The landing regulations were amended to permit the export of unprocessed salmon from seabased landing stations of up to 20% of the catch in 1990, and 25% in each of the years 1991 through 1993. There are extensive provisions concerning the regulation and facilities of seabased landing stations.

There is no restriction on the export of unprocessed salmon to the United States by truck once it has been landed in Canada.

Unprocessed Pacific herring has been placed on the export control list. Export of unprocessed roe herring is limited thereby to the United States only, and subject to the condition that the U.S. purchasers certify that the herring will be processed in the United States before being re-exported to any third country.

The operation of floating processing facilities remains prohibited in Canadian waters, whether Canadian or American owned and operated. This prohibition was not in issue in any of the proceedings. Floaters are common in the Alaska fishery, usually towed up from Washington State at the beginning of the season and returned south at season's end.

The current Canadian regulations are stated to be an interim solution subject to review in 1993.

SALMON PROCESSING IN BRITISH COLUMBIA AND ALASKA

In an average year, the B.C. salmon catch is about 25% of the catch in Alaska. This can vary from less than 10% in some years to more than a third of the Alaska catch in others. Much of the salmon canned in Alaska is consumed in the United States so B.C. canned salmon exports may equal exports from Alaska in some years. Between 15% and 30% of salmon normally processed through Prince

Rupert is Alaska caught fish surplus to processing capacity in southeast Alaska. Consequently some of the canned salmon appearing in B.C. processing statistics may actually represent Alaska caught fish. The largest B.C. company, with approximately 50% of B.C. canned salmon production, as well as canning operations in Alaska and Washington State, is one of the largest, if not the largest, producer of canned salmon in the world.

A larger proportion of the catch is canned in B.C. than in Alaska. One of the reasons may be the presence in Alaska waters of "floaters", large plants on barges, movable during the season, and capable of freezing large quantities of salmon. Much of the catch processed by floaters is frozen round, with the fish gutted and only the head removed. This produces a frozen product which is lower in quality and value than the typical B.C. dressed frozen salmon.

The B.C. sockeye and pink catch is frozen and canned in roughly equal proportions. The fish going to the freezers are typically those with the best appearance and higher prospective market value. Until recently, export of frozen salmon with net marks or other blemishes was prohibited but these restrictions have been relaxed by the Department of Fisheries and Oceans.

WORLD DEMAND/SUPPLY BALANCE

On average, 50% of salmon canned in B.C. is exported, together with 80% of B.C. frozen salmon. Worldwide, the annual harvest of wild salmon has varied between 550,000 tonnes and 850,000 tonnes during the 1980s. Substantial fluctuations from year to year occur because of the vagaries of the various runs, particularly in British Columbia. The long-term trend appears to be moving up slightly as conservation and habitat enhancement measures take effect. It seems likely that the growth in demand for salmon products worldwide will exceed the growth in supply of wild salmon and the gap will be filled with the product of salmon farms.

The production of farm salmon has expanded dramatically from less than 10,000 tonnes in 1980 to almost 190,000 tonnes in 1989. Most farm salmon is produced in Norway. Scotland, Ireland, and increasingly, Chile, also produce substantial tonnages. Salmon farms were appearing in growing numbers in British Columbia until 1989 when a combination of low prices, algae blooms, disease, and unexpectedly slow growth of farm Pacific salmon set back the industry. The local industry should

overcome these difficulties eventually and produce significant quantities of farm salmon in the future.

Farm salmon is aimed principally at the fresh fish market which offers the highest prices. Only the lower grades, and quantities in excess of the fresh market, are frozen and virtually none is canned. Farm salmon are not competitive for canning because the cost of growing the farm salmon exceeds its value in the can. By contrast, the fresh market for wild sockeye and pink salmon is insignificant, primarily because the fish are caught over a relatively short period of time as they return to the rivers. The quantity of fish caught in this period is enormous, and it must be processed quickly.

Wild sockeye and pink salmon compete with farm salmon mainly in markets for frozen salmon. Norwegian farm salmon has pushed B.C. salmon out of the French market, at least temporarily. Over the longer term, wild salmon should maintain a competitive advantage, simply because it costs less to catch a salmon than to grow one. Nonetheless, competition from farm salmon is likely to increase, and it may result in even greater price volatility than in the past.

That competition will be particularly troublesome if salmon farmers are able to call upon subsidies or protectionist measures from governments, which would distort cost and market discipline. The problems of European salmon farming in 1989 prompted Scottish and Irish farmers to lobby the European Community to raise the import duty on salmon entering the Community from 2% to 12% by bringing salmon into the fish reference price system. Obviously, both the members of the Association and the Union ought to oppose such a tendency with every means at their disposal.

B.C. SALMON CANNING CAPABILITY

Canned salmon has been the staple of salmon products since the early days of the fishery in British Columbia. At one time, small canneries were dotted all along the coast. These have disappeared and canning is now concentrated in 7 or 8 large plants in the Greater Vancouver area and Prince Rupert. These plants each contain as many as 11 canning lines. The canning capacities of the largest plants exceed one million lbs. of salmon per day.

In the 1990 season, the B.C. plants were able to process the biggest catch of Fraser River sockeye since 1913, together with substantial quantities of pink salmon. The 1990 experience demonstrates that the

canning capability of B.C. processors is at least equal to the catch in peak years and there are no B.C. caught salmon which are surplus to B.C. processing capacity. B.C. processors are thus in a position to compete for every salmon sought by foreign buyers, and there is no easy opening for those buyers to unprocessed B.C. salmon.

Almost half of B.C. canned salmon is marketed within Canada and most of the rest is sold in the United Kingdom, Australia and New Zealand. Canned salmon sales to the United States have been negligible. The Canadian market for canned salmon appears to be relatively inelastic with little ability to absorb cyclical increases in supply. The industry seems to rely on the United Kingdom, and to a lesser extent, Australia and New Zealand, to absorb the extra product in years when the runs are large.

Japan, the largest export market for B.C. salmon, buys frozen salmon exclusively. Salmon sales to the United States and France are substantial, but almost all the sales are frozen salmon.

A new salmon cannery relying on unprocessed B.C. salmon would not appear to be a very attractive investment on either side of the U.S./Canadian border. Any such endeavour would face competition from the existing canneries, which have already made their investments in plant and equipment and are capable of utilizing the total supply of salmon caught. It would take a bold, indeed rash, challenger to enter the arena under these circumstances.

MARKET PRICE

Prices for raw salmon are remarkably varied and volatile. The price paid to fishermen in Bristol Bay, Alaska, for sockeye in 1990 averaged $1.167 per lb; the 1990 price for U.S. caught Fraser River run sockeye in Puget Sound ports was $2.159 (prices are in $Canadian equivalents). Prices also swing wildly from year to year. As recently as 1988, prices were over twice the 1990 levels ($2.45 for Bristol Bay sockeye and $4.59 in Puget Sound). Price movements from year to year can be explained in terms of international market conditions and supply variations -- 1988 prices were set before an unexpected surplus of Norwegian farm salmon broke world prices, and 1988 sockeye runs were smaller than the record runs into Bristol Bay in 1990.

The ratio of Alaska to Puget Sound prices is more constant and less easy to explain. Some of the larger

U.S. processors likely are buying sockeye in both places. The price difference of almost $1.00 per lb in 1990 is probably more than the total cost of processing the fish in either location, and cannot be explained as a consequence of differences in processing costs between Alaska and Washington State. Some of the explanation may be related to supply. The Fraser River sockeye available to Puget Sound fishermen is limited by treaty whereas the number of fish caught in Bristol Bay is vastly larger. There may also be a quality difference. It has been suggested that Bristol Bay sockeye, sometimes referred to as Bristol Bay "reds", lack the fat content that Fraser River fish accumulate to take them on spawning runs hundreds of miles upriver, instead of the shorter distances in fresh water typical of Bristol Bay fish. Sophisticated export markets, in Britain and Japan particularly, may recognize these differences and price accordingly. Finally, the cost of processing is higher in the remote Alaska locations.

The Washington processors must also be looking to different markets, presumably for fresh and premium quality frozen product, to justify a price premium of the magnitude involved. Puget Sound processing plants now are relatively small, with few economies of scale, and they appear to be serving "niche" markets that can support premium prices.

The discussion becomes pertinent to this inquiry when B.C. prices are factored in. The average price for sockeye in B.C. in 1990 was $1.722 per lb, down from $3.506 in 1988. The relationship of B.C. sockeye prices to Washington State prices is quite erratic. Prices were virtually the same in 1988, 31% higher in Washington in 1987, 9% higher in 1989, and 25% higher in 1990. To the extent that the GATT ruling is a factor, one would have expected to see the price gap wider before the ruling and subsequently narrowing as American access to purchase of Canadian sockeye reduced the border influence on price. That has not happened, at least not yet, and the spread seems to be responding to other unidentified factors, presumably market related.

The FPBA argument in this inquiry is that lower processing costs, in particular as a result of lower wage rates, will permit Washington State processors to pay a higher price for B.C. salmon. Raw salmon prices are lower in B.C. than in Washington, and the proximity of Fraser River sockeye would seem to give U.S. processors an incentive to buy fish here. However, it is hard to relate that incentive to different costs of processing. The existing Puget Sound processing facilities are small and do not have the economies of scale that would permit them to take best advantage of lower labour rates. (The

FPBA case, as I understand it, is primarily anticipatory; lower costs provide an incentive to build sizeable new plants which would have a competitive advantage.) But perhaps even more to the point, the price spread in 1988 and 1990 is much greater than could possibly be rationalized as due to lower costs of processing.

In short, from a price perspective there is an incentive for Washington processors to buy B.C. salmon but that incentive does not seem to be related to processing costs. According to the FPBA, American buyers were offering $0.20 more per lb than Canadian processors during the 1990 season. Even at that price, B.C. sockeye would be significantly cheaper than the same Fraser River fish from Washington fishermen and thus an attractive purchase irrespective of processing costs.

The ratio of B.C. sockeye prices to those in Alaska appears a little more stable. B.C. prices were between 43% and 50% higher than Alaska prices in 1988/90, although only 27% higher in 1987. Again it seems hard to explain this differential primarily in terms of processing costs, although the cost of processing in Alaska is significantly higher as a result of the remote locations. Fish quality may also justify some B.C. premium. But the spread is large and may be widening. Apparently processors in Alaska made a profit on 1990 operations despite depressed prices, whereas B.C. processors operated at a loss.

There is no significant catch of pink salmon in Washington so there are no Puget Sound pink prices for comparison. Pink salmon prices in southeast Alaska and in B.C. vary with respect to each other in no apparent pattern. B.C. prices are higher than Alaskan prices in some years and lower in others.

Prices will vary from year to year with the fluctuations in the supply cycle of wild salmon. Average price also depends on the relative mix between the higher value sockeye and the lower value pink salmon. Price changes may also occur as a result of changes in farm salmon production. It was a large surplus of Norwegian farm salmon in 1989 that overwhelmed the market for fresh and frozen salmon in Japan and caused a sharp drop in salmon prices generally.

There are no significant exports of Canadian canned salmon to the United States but it appears that substantial quantities of U.S. canned salmon come to Canada, in excess of 5000 tonnes in each of the years 1980 through 1985 according to statistics in the U.S. s.301 Petition. The statistics do not disclose

to what extent these imports are from U.S. subsidiaries of Canadian processors, in contrast to independent U.S. competitors, or how much of the product entering Canada is for subsequent re-export. At least one Canadian processor with a U.S. subsidiary markets some of its U.S. salmon under the same labels, marked "Product of U.S.A." instead of "Product of Canada", and sells it through regular distribution channels in Canada. The tariff on U.S. produced canned salmon was 3% prior to the FTA and it is being phased out over 5 years. The tariff for calendar year 1991 is 1.2%.

B.C. SALMON ECONOMICS

If, as indicated above, the fundamental economics of wild salmon production are sound because demand for salmon is growing faster than growth in the supply of wild salmon, and the cost of raising farm salmon is greater than the cost of catching wild salmon, the problem facing the parties to this inquiry is one of allocation of the value of salmon products, determined by the market, among the several factors of production. In classic economic theory, that market value would be allocated to three elements -- partly to the processors, to cover the cost of processing and marketing, including wages and benefits to shoreworkers, and a return on the investment in plant and equipment employed in processing; -- partly to the fishermen to cover their costs of catching the fish, including a return on the boats and gear used in fishing; -- and the balance to the owner of the fish resource for its expenses, and as an economic rent. In this case, the owner of the resource is the Crown representing the public interest. In theory, the Crown would recover that inherent residual value, or economic rent, either through ownership and sale of the fish or the right to fish to the fishermen, or by charging a tax or royalty on the fish caught.

The Crown does not impose a levy on the salmon fishery in British Columbia, and thus does not take the economic rent. The salmon fishery is a limited entry fishery through the limit on the number of commercial licences issued to catch salmon. Consequently, the economic rent portion of the value of the fish tends to be reflected in the value of the limited number of licences. This value becomes visible when a licence is sold by one fisherman to another, in the form of the price paid for the licence in addition to the realistic price paid for any boat and equipment which may be transferred with the licence. The fact that commercial salmon licences sell for substantial prices is evidence of the existence of the large inherent value of the salmon resource, or economic rent.

So long as the export of unprocessed sockeye and pink salmon was prohibited, British Columbia processors facing similar cost structures for processing were competing only with each other for the unprocessed fish. They would try to buy fish at prices which would reasonably assure them of a margin to cover their cost of processing and marketing, and competition among them would determine the margin. The balance of the market value of the fish would go to the fishermen, giving them their cost of catching the fish, plus the intrinsic value of the fish, courtesy of their fishing licence.

At one time, much of the financing of the fishing fleet was extended by the processing companies, presumably in return for agreements by fishermen to sell their fish to the processor making the loan. According to the Survey of the British Columbia Fish Processing Industry: "Financial Results 1978 - 1982" (Canadian Industry Report of Fisheries and Aquatic Sciences No. 146, hereinafter referred to as the "Clarkson Gordon report"), the processors were involved in over 40% of the loans to fishermen in 1970. By 1982, this had fallen to 6%, with bank financing rising to 60% of the total, and another 16% coming from credit unions. Thus the control exercised by particular processing companies over their source of supply, and their ability to influence the level of financing to the harvesting sector, appears to have declined substantially. One large processor states that only one quarter of its supply of raw salmon now comes from controlled sources.

No doubt the erosion of financial ties to processors improved the bargaining position of fishermen relative to the processors, but it also increased the insecurity of the processors. They need an optimum volume of unprocessed fish to spread their fixed cost of plant and equipment over as many units of processed salmon as possible. A significant loss of unprocessed fish to a competitor could have a serious impact on their fixed costs of production per unit and overall profitability. Particularly in off-cycle years when there are fewer fish, the processing capacity has exceeded the fish available, increasing the processors' vulnerability.

Competition for fish is one of the main features distinguishing fish processing from other primary resource industries in British Columbia. In forestry and mining, government licensing provisions give the processor a reasonably assured source of supply. That assurance is largely absent in the fishing industry, and may explain why processing companies try to maintain as much confidentiality as possible concerning their arrangements with fishermen.

These conditions have influenced investment in the harvesting sector. The Clarkson Gordon report noted that the capital value of vessels shot up from $91 million in 1969, to $432 million in 1982, and the value of fishing licences went from zero to $145 million in the same period. The trend has likely continued through the 1980s. The Price Waterhouse report for the Fisheries Council of British Columbia of May, 1990 estimated the value of fishing vessels in 1989 at more than $1.5 billion, although this total may include a significant component of licence values as well as vessels and gear. In effect, the economic rent component has provided a cushion to the harvesting sector, which has been able to absorb a rapidly escalating investment in boats and equipment and still have a portion left which is reflected in the price of salmon licences.

It seems generally agreed that the investment in the harvesting sector is substantially in excess of what is reasonably required to catch the quantities of salmon available.

The problem identified by the Clarkson Gordon report was "cost-push" pressure on prices for unprocessed salmon. Fishermen demanded higher prices to cover the cost of their rising investment in vessels and gear. The shift in sources of financing from processors to banks that occurred during the 1970s provided the fishermen with easy access to outside financing and eroded the traditional relationship between processor and fisherman. This in turn led to excessive investment in the fleet and purchased licences. Repayment obligations placed fishermen under greater pressure to obtain higher and higher fish prices.

At $1.5 billion, the investment in vessels, gear and licences in 1989 is over ten times larger than the processors' investment in fixed assets for processing, at $130 million. It is over three times the value of the total fish catch in 1989 of $472 million. Not all of the estimated value of $1.5 billion is financed, but taking into account depreciation of vessels and gear as well as a reasonable return on capital invested, the cost of servicing the investment in the harvesting sector probably equals the total of all payments for wages, salaries and benefits in the processing sector, at $172 million in 1989. No wonder all sectors of the fishery in British Columbia are feeling a financial squeeze!

Arguably, the real winners in this story have been the banks and other financial institutions, and not the fishermen. This observation is not intended as a criticism of the banks and credit unions -- they are in the business of lending money. Rather, it is simply to suggest that much of the apparent

benefits to fishermen from higher prices may have been illusory for reasons which perhaps no one in the industry clearly understood at the time.

The GATT ruling and its aftermath have brought an added complication. The cost-push pressure on fish prices described in the Clarkson Gordon report now has been compounded by a threat of "demand-pull" price increases. American buyers have been given access to Canadian fish and, in theory at least, if the Americans have lower costs of processing, they can afford to pay more for the fish than the Canadian firms and still make a profit, thereby intensifying the pressure on margins.

Both the FPBA and the Union view potential American competition as a serious threat, and they are prudent to do so. At the same time, there is a danger of over-emphasizing this threat to the point of disregarding the underlying cost-push problem which still seems chronic and unresolved. There is little evidence that investment in the harvesting sector has peaked or that adequate measures are being taken to restore a reasonable balance of capital invested to fish available.

Indeed, the Union still criticizes the companies for alleged excessive control over fishermen. It is hard not to regard such criticism as a voice from the past, which fails to recognize the dramatic shift in financing and control that has occurred over the last 20 years. Fishermen still have links to particular companies, but increasingly these arrangements seem to be based on services which the companies provide. These include pre-season advances for supplies, ready access to ice and other supplies, spare parts brought in quickly when required, and packers to take the fish at sea and allow the fishermen to return to fishing as soon as possible. In an earlier era, financing of vessels was a more important lever of control than the degree of loyalty that the current arrangements support.

No doubt the power and control over fishermen which the traditional arrangements gave to the companies was sometimes abused. There is no going back to that era, although the Union is concerned that the companies may regain a larger measure of control through the purchase of transferable licences. A focus on past abuse risks ignoring the problems of today, and the trend of the last 20 years is potentially disastrous for fishermen, shoreworkers, and processors alike. It is surely difficult to convince fishermen that rising fish prices are not necessarily in the fishermen's interest, but when it leads to a spiral of more and more investment in vessels and gear, and bigger and bigger debts to the bank, many fishermen find themselves on a financial treadmill that is no better, and perhaps worse,

than the old arrangements with the processors.

The fall in salmon prices in 1989, caused by a supply/demand imbalance, may have begun a reversal of this trend. Sockeye prices are down nearly 60% from their peak - $3.50 per lb. in 1988 to $2.32 in 1989 and $1.72 in 1990: pink prices start from a much lower base but also have declined significantly; from $0.56 per lb in 1988, to $0.43 in '89, and about $0.35 in 1990. The prices for pinks in southeast Alaska were higher than B.C. prices in 1989 but lower in 1990, presumably reflecting some influence from substantial purchases by B.C. processors in that area. The evidence before this Commission suggests that market prices for canned salmon have dropped even farther than raw fish prices, resulting in projected losses by B.C. processors on 1990 operations.

Recent experience certainly demonstrates that there is no financial cushion in the processing margin to absorb market price declines, and if the processing industry is to remain viable, market price declines in the foreseeable future will have to be fully reflected in the prices paid for unprocessed salmon. According to the FPBA's figures, between 1987 and 1989 the premium paid for raw B.C. sockeye over Alaska sockeye at Bristol Bay jumped from 27.2% to 50.8%. As plant labour in total averages only about 20% of the cost of fish, by 1989 the premium paid for B.C. sockeye over Alaska probably was in excess of 1.1/2 times the <u>total</u> cost of shoreworker labour involved in processing it! An adjustment of shoreworker wage rates will not come to grips with that problem.

The FPBA has supplied the Commission with audited aggregate figures on the profitability of the members' processing operations during the 1980s. The companies on average sustained a loss after tax of 3.2% of equity in each of the years 1980 to 1984, and an average after tax annual return on equity of 11.8% in the years 1985 to 1989. 11.8% is below rates of return for regulated public utilities. It allows nothing as a premium for the risk inherent in this industry, which warrants a return significantly higher than utility returns. 1985 to 1989 were the "good" years for the companies in the 1980s: for the decade overall the average return was a dismal 5.5%.

The companies' operations appear to be efficient, and they have kept abreast of productivity gains from new technology. There must be another explanation for the poor profitability of the companies as a group. That explanation seems to be that the companies consistently have paid too high a landed price for fish to earn an adequate return. This problem cannot be blamed on GATT or the FTA because it

antedates the GATT ruling. GATT may threaten to accentuate the problem by adding a further competitive element, but it will be an add-on to base prices that already left an insufficient margin for processing. Comparison of B.C. sockeye prices with those in Alaska supports this conclusion.

This problem needs to be addressed by the processors and the Union together, and the parties should not become so diverted by the American threat that it is left unattended. The solution is not going to be easy -- if it were, it would have been solved years ago. But it does require cooperative action and a clear understanding of the underlying economic forces at work, undistorted by rhetoric. The collapse of salmon prices since 1988, while distressing, may provide an opportunity to restore a better equilibrium for the longer term and gradually wind down the extent of overinvestment on the harvesting side.

HERRING

The commercial herring fishery in British Columbia in which the parties are involved is exclusively a roe fishery. Season openings are brief and the fish are caught just before they move in to spawn when the roe content is at its peak. B.C. herring roe is the top quality roe for Japanese kazunoko and Japan is the sole market for the product.

The premium New Year's gift trade market for kazunoko in Japan is about 3,000 tons annually. With a normal annual B.C. catch of 35,000 to 40,000 tons of herring, and an average 14% ratio of roe to herring by weight, the B.C. production can comfortably supply the Japanese premium market.

Once the freshly caught herring reach the plants, they are pumped out of the vessels and quickly frozen. The exact process of freezing varies from plant to plant but efforts are made to keep the bodies of the fish straight to avoid bending or distorting the roe. Freezing the herring sets up the roe, improving the shape, firmness, and distinctive crunch of the eggs between the teeth so highly prized by the Japanese consumer. It also permits the frozen herring to be taken out of storage and processed at the plant's convenience, normally a two to three month period leading up to the beginning of the salmon season in early July.

Processing involves thawing the fish by various means, sorting them by sex, and delivering the female

fish to a line of shoreworkers who extract the roe by hand. The method is to break the back of the herring behind the head and squeeze the roe out. It is most important that the roe retain its shape and not be bent or broken.

"Popping" the roe in this manner has been exclusively a hand operation until the 1990 season when a roe popping machine was installed in one plant on a test basis. If machine popping is successful, it will supplant much of the intensive hand labour presently involved in the process, as it is considerably faster and operates with fewer shoreworkers. Speed is not the only criterion, however, and it will be necessary for the machines to match the quality of hand processing to be a successful substitute. Apart from groundfish, roe popping is perhaps the most labour intensive activity left in fish processing in the B.C. industry. As such, it has been the focus of some contention between the parties.

The work is unpleasant, involving the handling of cold fish in icy water, and a repetitive motion of hands and wrists that places considerable stress on muscles and tendons. This causes repetitive motion injuries which are a source of continuing complaint by shoreworkers. A joint committee of the Association and the Union commissioned a study of the subject by the B.C. Research Corp. The December 1989 report contained a number of recommendations for changes in procedures and working conditions in the plants. Another concurrent study under joint auspices explored the causal link between roe popping and muscle-tendon disorders. The companies have attempted to respond to recommendations made for improvements in the workplace to alleviate repetitive motion injuries.

Complaints of injury are still frequent in several plants. Repetitive motion injury complaints may have become the focal point for a more general malaise arising from the overall condition of labour relations in the plants. These complaints are likely to subside only when overall concerns are adequately addressed. This comment is not intended to question the legitimacy of the complaints of injury raised by the employees; rather it is simply to suggest that if there was better communication between management, the shoreworkers and their Union representatives, such concerns would be satisfactorily addressed at the plant floor level, and would not rise up as sources of contention at high level Union/management discussions.

GROUNDFISH

Groundfish processing, strictly speaking, is not within the terms of reference of this inquiry because there have not been any pertinent restrictions on the purchase by American processors of unprocessed groundfish from west coast Canadian waters. In 1989, approximately 20% of groundfish caught by British Columbia fishermen was landed directly in United States' ports, compared to 40% landed in Canada. The remaining 40% consisted of hake sold directly to foreign buyers over the side from British Columbia trawlers.

The diversion of groundfish catches to U.S. ports for landing is encouraged by the tax on fuel in British Columbia, which creates substantially higher prices for fuel in British Columbia than in Washington State. B.C. trawlers are attracted to Washington ports by the lower cost of fuel, which is a significant operating cost, and there is an incentive to unload their catches at the same time. The parties have lobbied the British Columbia Government to reduce the fuel tax for commercial fishermen. There appears to be a strong case to be made that the discriminatory nature of the tax adds to the diversion of the groundfish catches to Washington State at the expense of potential shoreworker employment here.

Groundfish processing is indirectly relevant to this inquiry because at least one of the members of the FPBA processes groundfish, as well as salmon and herring. Other companies would like to process groundfish in better circumstances. Groundfish represents the most highly competitive sector of British Columbia fish processing, with the narrowest margins. It is also the most labour intensive as the fish are filleted by hand. The product is sold in fresh fish markets throughout the western United States and Canada and these markets are increasingly selective and demanding.

United States competitors, including plants with unionized shoreworkers, employ filleters at piecework rates. The FPBA contends that incentives tied to productivity of shoreworkers on the fillet lines is necessary to achieve production at levels which meet the competition.

The FPBA member with a groundfish plant in the U.S. as well as in B.C. states that productivity is higher in its U.S. plant because of the incentive pay program involved. This incentive scheme is said to be similar to that of its major U.S. competitor. The competitor's arrangement has evolved over a

number of years and currently weights compensation equally to quantity, percentage recovery, and quality. The fish are brought along the fillet line in plastic tubs. Each filleter works from a separate tub, so there is no scrambling among the filleters for the best or largest fish. Payments to filleters are calculated on a weekly basis to eliminate short-term anomalies in daily production. There appears to be a high degree of continuing discussion between the first-line manager and the union shop steward with respect to the operation of the system. Management of the plant is flat; any disputes that cannot be resolved with the first-line manager go directly to the company president for resolution.

Groundfish processing for the fresh fish market requires a year round commitment to the business, because customers need a continuing reliable source of supply. As a result, the FPBA member that still processes groundfish in British Columbia is required to maintain the groundfish operation even at the height of the herring and salmon seasons. It has done so with a workforce of shoreworkers who are prepared to work extremely long hours at peak periods to make the dual operation possible. A strong commitment by management and shoreworkers alike was clearly in evidence during a Commission visit near the peak of the salmon season. The plant in question has eliminated its canning lines and concentrates on top quality frozen salmon production during the salmon season. Dressing salmon for the frozen market blends most readily with the groundfish operation.

The Commission was advised of a plant in Prince Rupert which reopened a groundfish processing operation after employees took the initiative in reorganization of workplace practices. Apparently, the employees, with the support of their Union, have accepted a larger role in production management. The plant has been successful in increasing productivity and obtaining a better match of product to market demand. The prospect of processing more groundfish would permit shoreworker employment, in the plants involved, to be extended almost year round from the limited spring and summer employment available from herring and salmon. The companies, however, have made it clear that those prospects will not be realised unless the Union is prepared to be more flexible in terms of workplace rules and practices.

Finally, there is the matter of "contracting out" of processing work by some plants. This is particularly true of groundfish where some of the fish are allocated to an affiliated plant in the United States. The company has a logical explanation for this practice, which is essentially that its Canadian plant has insufficient capacity to process all the groundfish it has contracted to take from fishermen, and it is

necessary to direct the surplus fish elsewhere.

The company has endeavoured to convince the Union representatives of the reasonableness of its position, but it has not met with much success. The situation might be improved if the Union were given a consultative role in deciding which fish were to be processed in the unionized plant and which fish were to be diverted elsewhere. But management should also recognize that there is no more sensitive issue for any union than the contracting out of work capable of being performed by union members. Even with better consultation and the best of intentions on both sides, this issue is almost certain to be a continuing source of friction. The parties should use their best efforts to keep that friction to a minimum but it would be naive to expect that it can be eliminated through logic and reasoned discussion.

COMPANY PROFILE

There are four members of the Fish Processors' Bargaining Association represented in this inquiry. One of the companies processes about half of the B.C. pink and sockeye salmon catch. It is a subsidiary of a large multi-national company which has vertically integrated food operations, from processing to retail, in addition to forest products. Fish processing represents less than 10% of its total operations in terms of revenues and earnings. Of the three other companies represented, one other is also a part of a much larger food processing and distribution group. The remaining two companies appear to be independent, controlled by families who have been actively involved in the B.C. fishing industry for many years.

The vertical integration of the larger companies has been a subject of Union criticism over the years, and these concerns have been expressed again in this inquiry. In my opinion, the Union should rethink its criticism. There are some definite advantages to vertical integration in this industry. A larger organization normally has easier access to capital at lower cost than smaller concerns. In the case of the largest company here, it has a worldwide marketing organization which is supported by other products as well as fish. This organization supplies a marketing thrust for canned salmon that would be very difficult to duplicate by a salmon processor operating on a stand-alone basis.

The annual catch of sockeye and pink salmon is normally taken and processed over a two month period

from early July to early September in each year. As consumption extends over a 12 month period, inventories of salmon rise and fall dramatically over an annual cycle. Frozen salmon normally are sold and shipped soon after being processed, and inventory costs and risks are passed to the customers. Canned salmon inventories are usually held by the processors themselves and drawn down in line with consumption over the ensuing 12 months. Thus the inventory costs and risks of canned salmon largely remain with the processors, and these can be substantial. At December 21, 1989, product inventories of companies totalled $310 million, more than twice the value of processing plant and equipment, and 40% of total assets of the companies used in fishing and fish processing.

There is an interest cost on funds used to buy and process the fish held in inventory. That cost is subject to the risk of fluctuating interest rates. As well, the processors are at risk to market price fluctuation, and exchange rate risks on the portion exported and sold in foreign currencies. The unexpected drop in prices in 1989, coming after 1989 prices to fishermen had been set, hit the companies hard. The market value of the canned salmon in inventory fell, and the cost of carrying the inventories seems to have jumped by nearly $15 million, presumably as a result of sluggish sales. The FPBA companies were hit again when prices fell even further in 1990 and they expect to record an overall loss on the year's activity. The 1989/90 experience is a clear demonstration of the risks inherent in this industry.

A large diversified company is better positioned to take such risks. Typically, larger companies provide financial strength and diversification while smaller companies may be more versatile and innovative. The B.C. fish processing industry represented by the FPBA comprises both large and small companies. The mix should be close to optimal in terms of maintaining a competitive environment which promotes efficiency and innovation. At the same time it has the financial resources to withstand the ups and downs of the cycles and to supply the capital required to keep plant and equipment up-to-date.

An organization that is vertically integrated to the retail level improves market access. This is particularly significant for Canadian canned salmon sales which account for approximately half of the canned salmon pack. It should be noted, however, that the processors do not enjoy exclusive access to their retail affiliates. The retailer is free to bargain for the best terms available and supermarket shelves usually contain products from several processors at varying prices.

INDUSTRY DISCLOSURE

Fish processors are traditionally reticent about disclosing details of their operations. This reserve probably is a symptom of the highly competitive nature of the business and a concern that any indiscreet disclosure could give competitors an advantage. The insecurity of the companies may have been heightened in recent years if the shift in the financing of fishermen from processors to banks and credit unions has been accompanied by a loss of control over sources of supply of salmon and herring. If so, the processors face competition at both ends of their operations -- in the purchase of raw fish as well as the sale of the canned and frozen product.

Healthy competition for fish of course is in the general interest. The danger is in price competition so intense that an insufficient margin is left to cover the cost of processing. If this occurs over a long enough period, smaller and less well-financed companies may be fatally weakened and the industry could slip toward monopoly control. Negotiations with the Union establish base prices for salmon, but the companies generally appear to be paying prices above the base in many instances.

The amount of control exercised by companies over the fishing fleet is controversial. The Union contends that the extent of the companies' control is substantial and that the companies wish to withhold details for that reason. However, the evidence from the shift of sources of financing from processors to banks and credit unions suggests that the companies' control has been substantially lost, and the processors' reticence is a reflection of their lack of control and vulnerability to loss of supply. The subject remains one of supposition and conjecture, and it may be further complicated if, as the Union suggests, the companies are buying licences.

The Union does not share the companies' penchant for confidentiality, nor does The Fisherman, the Union newspaper. The Union often has informal sources of information, and the companies sometimes find aspects of their affairs reported by The Fisherman that they would prefer to keep private. The companies are quite sensitive on this subject, and their complaints often stress the alleged inaccuracy of the reporting.

The Commission has been provided with copies of The Fisherman back to early 1989. In my opinion, the stories reported appear to be reasonably objective, certainly when one considers the intended

audience. The Fisherman does not aspire to be an industry trade journal, and it is written primarily for Union members and reflects their interests and point of view. Its function as a trade journal occurs mainly by default, because the industry's reticence limits access by other journalists. Factual accuracy is to be encouraged but it will not always be obtained, particularly when reporters have to rely upon unofficial sources in the absence of official disclosure. In my opinion, The Fisherman is a good union newspaper and the companies should try to develop more tolerance towards its reporting.

Controversy about The Fisherman is merely one consequence of the companies' concern for privacy. As stated earlier, the Commission believes that this concern arises from the highly competitive nature of the business and for that reason it is deserving of some sympathetic understanding. Ultimately, the companies themselves must be the judge of how much information they are prepared to disclose. At the same time, the companies should recognize that privacy comes at a cost, and the cost may be particularly high in the present circumstances of the industry.

The companies see a threat of greater competition from American purchasers of unprocessed salmon and herring. They face a prospect of continuing cost-push pressure on salmon prices for the reasons described in the Clarkson Gordon report. They wish to de-escalate the adversarial nature of their relationship with the Union and move to a more cooperative, consultative approach to plant management. The companies' ability to act effectively on all three of these subjects would be enhanced by greater disclosure.

The lack of hard data permits speculation and rumour to flourish. There are allegations about the companies' profitability in circulation which appear to be wildly exaggerated based on the financial information submitted to this Commission and the other available evidence. The best answer to speculation is the facts, and the companies' ability to get their message across is impaired when facts are withheld. While the extent of disclosure is ultimately for the companies themselves to decide, in my opinion, they should reconsider whether it is not possible to provide more financial information about their operations to the shoreworkers and the Union on a continuing basis without doing irreparable damage to their competitive position.

THE AMERICAN THREAT

The U.S. processors who filed the original petition of complaint with the Office of the United States Trade Representative outlined in that complaint circumstances under which they might compete for B.C. herring and salmon. The scenario emphasized herring, from Canadian waters close to southeast Alaska, but it appears to have been assumed that there could be a similar scenario with respect to salmon. The U.S. processor study recognized that fishermen tend to be loyal to the processors they have dealt with in the past and that a new processor will have to offer a significant premium in price to tempt a fisherman to leave his traditional relationship.

The U.S. study assumed that this premium would be a one-time cost and prices would settle back once the new relationship became established. The flaw in this theory is the assumption that the old processor will remain passive and not attempt to match the prices offered by the new competitor. B.C. processors have stated emphatically that they intend to meet the competition from potential U.S. competitors to the best of their ability. Consequently, I do not think U.S. processors are likely to break many traditional relationships in a bidding war. They face the prospect of higher prices indefinitely and that prospect should be discouraging in itself. But some may try and B.C. processors may have to pay more for some fish for a while to fight off the challenge.

FPBA members have been alert to the threat of U.S. competition for some time. They all have acquired operations of one sort or another in southeast Alaska or Puget Sound, or both. They appear to be strategically well-positioned and unlikely to be taken by surprise by potential U.S. competitors.

Canadian law continues to prohibit the operation of floating factories in Canadian waters and the s.301 Petition implied that floaters would not be able to compete for fish if that prohibition continued. Floaters also have high costs of maintaining a processing crew on board and would have to be able to buy sufficient quantities of fish to justify operations. The purchase-at-sea regulations are likely to remain sufficiently cumbersome to inhibit sales on a scale which could justify a floater operation, assuming one could operate satisfactorily in American waters off Washington State. Probably most unprocessed salmon and herring going south will be landed in Canada and shipped by truck to land based plants. Apparently over 90% of the raw salmon that crossed the border during the 1990 season was moved by truck.

B.C. exports of raw sockeye in 1990 were in the vicinity of 5,000 tonnes out of a total salmon catch of 94,000 tonnes. Some of this fish was destined for U.S. fresh fish markets, and some may have been frozen in U.S. cold storage plants near the border and returned to B.C. for processing. However, at least one American processor with a large Alaska operation purchased sockeye in B.C., and the price differential between Washington at $2.159 per lb. and B.C. at $1.722 per lb would make such purchases attractive. The FPBA says that American processors were offering a $0.20 per lb premium for B.C. sockeye. The higher prices for sockeye salmon landed in Washington State appear to be due to the limited supply of fish and market opportunities that can support higher prices. Most production from FPBA members in B.C. is sold in larger markets for canned and frozen salmon which are more price sensitive.

There were no significant runs of pink salmon in southern B.C. waters in 1990 and no significant exports of unprocessed pinks. In the north, B.C. processors imported about 6,000 tonnes of Alaskan pinks. The ratio of pink prices between B.C. and southeast Alaska reversed in 1990: Alaska prices had been higher in 1989 but B.C. prices were higher in 1990. The disparity between B.C. and Washington sockeye prices and those in Alaska remains dramatic. The 1990 price for Bristol Bay sockeye was only $1.167, or barely half the Washington price.

This experience should be viewed against the background of the Pacific Salmon Treaty signed by Canada and the United States in 1985. Virtually all of Washington sockeye salmon catches are from the Fraser River runs. The effect of the 1985 treaty was to significantly reduce the U.S. share of the catch, to 27% of sockeye and 31% of pinks in 1985-88, and a numerical cap thereafter, which will effectively allocate all future increases in the runs to Canadian fishermen. To the extent that Washington State processors have developed growing markets, they now may be required to purchase some B.C. caught fish to serve that market demand. This might explain purchases at the current level.

However, the limited American purchases in B.C. in 1990 need to be taken with some caution. The new Canadian regulations were not settled until the Spring of 1990, giving little lead time for Americans to plan a foray into Canada. Secondly, 1990 was a peak cycle year for sockeye in both B.C. and Alaska. With ample supplies of salmon from their own waters, there was less incentive for American processors to seek more fish from B.C. Circumstances could be quite different in a season

where there is a shortage of fish, and processors are scrambling to acquire sufficient supplies to operate their plants and fill their customers' demand.

THE FPBA WAGE PROPOSAL

The FPBA's case in this inquiry is that the historic equilibrium which has existed for many years has been disrupted by the opening of the sale of unprocessed fish to foreign, chiefly American, buyers. The Association's argument is that their cost of processing is higher in British Columbia than the cost to their competitors. This is because of higher wages and benefits to shoreworkers, as well as higher interest rates, taxes, and, for the present at least, an unfavourable exchange rate on the Canadian dollar. Because their foreign competitors have a lower cost of processing, the competition will be able to afford to pay more to fishermen for the B.C. salmon and herring catch, forcing prices up, and squeezing the margin available for processing. The foreign buyers can live comfortably with these reduced margins, while the Canadian processors will not be able to cover their costs, and over time will be forced to go out of business or relocate their operations.

There is no doubt that wage rates of unionized shoreworkers in British Columbia exceed those paid in Washington and Alaska by a substantial margin. Figures supplied by the FPBA (all in $ Cdn.) are an initial gross hourly rate (wages and benefits) of $18.79 and an average rate of $20.02 for British Columbia, compared to $15.96 for salmon, and $12.50 for groundfish, at a representative Washington plant and $12.19 for a plant at Wrangell, Alaska. Probationary periods for new employees in the United States are also several times longer than the 400 hours for B.C. shoreworkers, and wages of probationary workers are frequently two dollars and more below the regular employee rates.

The companies acknowledge that wage reductions alone are not the answer. As I understand their argument, it is that savings will have to come from several sources of which wages is only one; labour should participate in a general belt-tightening.

The FPBA sees its greatest threat from Washington processors and, for salmon, on the figures cited above, gross wage rates in Washington are about 80% of those in B.C. Shoreworker compensation represented 13.5% of the total cost of production of FPBA canneries in the 1985/89 period, so that if B.C. processors were to pay on the Washington scale, all other things being equal, it would amount to

a saving of 2.7% of total production costs. It should be noted that the FPBA does not propose a general wage cut, but rather substantially lower rates for new employees and a much longer period of employment before their rates would rise to existing levels. On the FPBA's proposals, the immediate savings would be much less than 2.7% of production costs, but they would gradually increase over time as the number of "new" employees grows relative to the present group of "old" employees.

The FPBA has stated that its members' objective in the 1989 contract negotiations was "to secure long term changes that would ensure the companies' ability to remain competitive, secure their position in the marketplace and provide a greater measure of job security for their employees." That is a laudable objective, and one the companies have been pursuing for some time.

Savings in the cost of processing labour must come from lower wages, technological change, or shoreworkers working "smarter" and more productively. In 1989 the Association seemed to give up hope that productivity gains in the workplace could be achieved through negotiation with the Union: they turned to the more Draconian alternative of lower wages. In my opinion that shift in position was, at best, premature.

The companies already have made substantial gains in productivity through the introduction of new technology, and there is the prospect of more to come. Over time they can also reasonably expect benefits through an improved style of management which gives the workforce more control over the workplace environment and leads to better productivity and increased job satisfaction. The comparison of shoreworker labour as a percentage of total cost of production in 1980/84 and 1985/89 suggests that between the two periods FPBA members achieved unit labour cost savings which were in excess of the maximum savings which could reasonably be expected from wage reductions. In my opinion, the companies were right at the outset to look to technological change and "working smarter" as their best option, and they should stay on that course.

Shoreworker wages and benefits are not out of line in comparison with wages and benefits in other resource industries and the cost of living. The Union's data on comparative wage rates in forestry and mining in British Columbia shows that shoreworker wage rates are below those in the other primary resource industries. Plant operations are characterized by increasing efficiency, much of it resulting from the introduction of new technology at the cost of thousands of shoreworkers' jobs. Whatever the

explanation for differences in raw fish prices, it does not look like the comparative cost of processing exercises a significant influence on prices or that a reduction in shoreworker wages will greatly improve the companies' competitive position.

Washington State processors will find B.C. prices attractive to the extent that the market demand for their higher priced products exceeds the presently available U.S. supply, and the GATT ruling certainly has opened that door which previously had been firmly shut. B.C. processors can only meet this competition effectively by exploiting the same market opportunities that permit their Washington State competitors to pay more for fish. Realistically, they cannot expect to meet that competition by further shaving their processing margin and trying to sell it all as canned or frozen product into their traditional, lower value markets. The selective premium markets presumably will continue to be a small proportion of total production, and most salmon will continue to be sold in traditional markets.

It is reasonable to anticipate that existing Washington State processors will continue to improve their efficiency in the future. B.C. processors also have opportunities to obtain greater efficiencies and lower unit labour costs through more technological change, streamlined production processes, and cooperative management. Supplemental incentive pay arrangements will also assist, although they appear to be less important to salmon canning than other more labour intensive activities. If the companies continue to pursue greater plant efficiency, they should be able to keep costs reasonably in line with the existing Washington State competition. Over time, the wage differential may gradually narrow.

As a result of the GATT ruling, B.C. companies now face competition for a limited quantity of salmon due primarily to market factors. I do not think a drastic proposal, such as substituting a 2500 hour probationary period for new employees instead of the present 400 hours, with an initial $9.00 per hour wage rate, is required at this time. The proposed FPBA solution might actually be counterproductive, and impair the strategy of lower unit labour costs through more capital intensive, technologically sophisticated operations that require a highly skilled workforce. There is no suggestion that the longer period of probation can be justified as anything more than a cost-cutting measure.

More highly skilled workers will be required as time goes on, and the companies are unlikely to attract them with lower wages. The FPBA proposal seems inconsistent with the companies' goal of developing

a skilled and experienced work force with a long-term commitment to the industry. I also think the Union is justified in its concern about the stress within the bargaining unit that would be created by such a regime, which would divide shoreworkers into two groups with interests potentially at odds with each other.

The companies have been committed to a program of reducing costs through technological change. That program has been successful in reducing unit labour costs, albeit at the expense of many shoreworker jobs. As the plants become more capital intensive and technically sophisticated, the skills and dedication of the work force becomes ever more important. The companies have recognized that reality, and they seek to move to a more consultative style of management which delegates greater autonomy to the workforce consistent with their enhanced skills. It seems to me to be quite inconsistent with that strategy to bring in new workers at substantially lower wages than paid to those currently on the payroll. It sends the wrong signal to new employees and may impair the quality of worker that the companies need to attract to maintain their long-term competitive position.

I conclude, therefore, that the competition which the FPBA companies currently face from Washington State as a result of the GATT ruling does not reflect lower processing costs so much as market factors. At present, the higher hourly wages paid in B.C. are partially offset because the Washington State plants are smaller and lack the B.C. plants efficiencies in scale (even though some of these units may be owned by much larger companies).

There is the possibility in the future of large scale processing in Washington State which potentially could achieve cost efficiencies of scale equivalent to those presently enjoyed by B.C. processors. If such competition were to materialize, relative wage rates could become significant in determining the balance of competitive advantage. A reduction in wages might be a necessary part of a drastic package of measures required to meet the challenge in such circumstances. The threat of such large scale competition is not immediately on the horizon, and it may never materialize. At least until it does, I do not think that implementation of the FPBA wage proposals is necessary, and the present competition can be met by continuing to pursue greater plant efficiency, and market strategies.

EMPLOYMENT IN FISH PROCESSING - A CHANGING WORKPLACE

A recent article in the Wall Street Journal (August 27, 1990) profiled employees of fish canneries in Alaska. It stated that approximately half of the workforce is comprised of college students and "the remaining jobs are filled by a smattering of hardy locals, and by contract labourers, notably from the Philippines and Mexico". The canning season normally lasts about 8 weeks, and most production workers are employed 7 days a week and up to 15 hours per day at the peak of the season. Canneries are located in small isolated communities scattered along the Alaska coast.

The employment pattern in B.C. canneries appears to be different. Students seem to represent a much smaller proportion of the seasonal workforce, and there is no imported contract labour. B.C. canneries now are concentrated in the greater Vancouver area and in Prince Rupert. Employees tend to be residents of these communities and many have been employed in the industry for a long time. In Prince Rupert, a substantial proportion of the workforce consists of native Indians, some of whom live on reserves for the balance of the year and rely upon their shoreworker earnings as their only source of annual cash income. In Vancouver, many shoreworkers come from ethnic communities, often with English as a second language. Plants which process groundfish or farm salmon can offer employment to at least part of the production workforce for most of the year, and virtually all of the plants process roe herring for a period of time that at least matches the length of the salmon season. The result is more continuity and stability in the workforce in British Columbia fish processing than appears to be the case in Alaska.

This difference in patterns of employment has implications for the Association's proposals to establish a much longer qualifying period than at present for new employees, with lower hourly earnings. Such a proposal might have more attraction if the bulk of the workforce had a high turnover and little long-term commitment to the industry, as appears to be true of Alaska. It has less appeal, however, for a workforce which hopes to be in the industry for the long term and develops greater skills through experience.

Changes in plant operations have increased the stress on shoreworkers in recent years. New technology has automated operations all the way from pumping salmon out of the boats, through the washlines where the fish are butchered and cleaned, the canning process, labelling, to the packing of cans into

cases. While the wave of technological change may have crested, its force is still flowing through the operations, and more job losses are likely in the future.

The share of processing labour in the total cost of production has dropped to 13.5% from 16.5% in the early 1980's, according to figures provided by the FPBA. These percentages cannot be taken with too much precision for comparative purposes. They are influenced by landed fish costs, which represent roughly two-thirds of the total cost. Fish costs can swing substantially from year to year depending on market and supply factors as well as the relative proportions of higher priced sockeye and lower priced pinks in the particular year. With those reservations, the comparison does indicate a significant declining trend in unit costs of processing labour, and that is what one would expect from the new technology introduced into the plants during the 1980s.

Jobs are becoming fewer and the processing season is getting shorter, perhaps less than six weeks for salmon in some plants. The shortened season is caused primarily by factors beyond the industry's control, and results from delayed openings of salmon runs to fishing by the Department of Fisheries and Oceans in the interests of better management and conservation of particular runs of fish. Furthermore, as mechanized processing of fish supplants hand butchering, shoreworkers, who have taken pride in the hand skills of dressing salmon acquired over many years, see those skills sidelined by machines which do not do as good a job but do it much faster.

In these circumstances of job insecurity, rapid change, and devaluation of the skills of a lifetime, it is hardly surprising that there has been a loss of shoreworker morale and growing dissatisfaction with working conditions. There also seems to be a significant "generation gap". A number of older workers have observed to the Commission that younger workers just don't seem to have the same dedication to the job as workers did in times past.

No doubt there is a certain nostalgia in such observations, but in my opinion there is also substance, and many younger workers are not motivated in the same way as their predecessors. This presents a challenge to management which must develop new incentives and sources of job satisfaction, perhaps by appealing to younger workers with a prospect of greater autonomy and control over their working environment. Younger workers in particular are going to want increased independence and control over their workplace environment and they are likely to be increasingly less tolerant of rigid job categories

and an authoritarian style of management. This means a more consultative approach. The line between management and shoreworkers tends to blur as employees in the plant achieve greater control over their working environment and assume more responsibility for aspects of the operation traditionally regarded as within the exclusive domain of management.

As plants become more mechanized and technically sophisticated, there are fewer jobs requiring unskilled manual labour and more requiring technicians who are capable of operating and maintaining complex equipment. This should place an increased premium on training, experience and long-term commitment to the industry. In order to attract workers with those qualities, it will be necessary to pay wages and benefits competitive with other industries looking for employees with similar attributes.

The industry would like to develop a category of multi-skilled employees who could be employed with greater flexibility in carrying out a variety of maintenance and trouble shooting jobs around the plants. The companies may need to offer premium wages for tradesmen, particularly those who are multi-skilled. Job categories and seniority lists generally have become antiquated and need substantial revision to match current plant operations and eliminate sex discrimination. Progress to date has been slow. Senior employees have vested interests in the existing arrangements, and there are potential conflicts of interest among employees in changing job categories. Nevertheless, if the parties do not deal with this situation with more determination, they face the prospect that it may be taken out of their hands. An imposed third party solution likely would not please anybody.

The problem appears to be primarily a practical one in reforming job categories and seniority lists in a manner that generally is regarded as fair. A solution may require a working group of representatives of the parties to meet on a regular basis and work through the specific problems and attempt to find pragmatic answers. It may be necessary to close some obsolete job categories to new entrants and implement change over time through a normal retirement process, or perhaps offer special incentives to encourage employees to accept new job categories and seniority arrangements. Such solutions will require less confrontation, better communication, and flexible, common-sense pragmatism in working through problems.

FLEXIBILITY IN WORK SCHEDULING

The FPBA has a request for greater flexibility to shift arrangements, starting times and call-out provisions. The specific problem identified was unexpected delays in processing due to the late arrival of boats with the fish. The collective agreements contain detailed provisions regulating shift scheduling which reflect bargaining over many years. The companies say these rules place operations in a straitjacket and prevent them from scheduling the work most efficiently. The Union contends that flexibility has been abused by management in the past and the existing rules are necessary to protect shoreworkers. In my opinion, the existing rules are too restrictive, but they are a legacy of the adversarial relationship between the parties in the past. Management is only going to succeed in achieving more flexibility if it is able to demonstrate that flexibility will be exercised in a manner that is considerate of shoreworkers' convenience as well as its own. That means consultation with the Union before acting, balancing the competing concerns fairly and reasonably, and being prepared to compromise even if not compelled to by the letter of the collective agreement.

Two particular features of the collective agreements should be modified to give the parties an opportunity to begin a new relationship. The collective agreements have a minimum call-out payment of 4 hours' wages if the crew is called out and then sent home without work. In my opinion, this provision is punitive. Except where an employee actually commences work and is entitled to 4 hours pay pursuant to s.34 of the Employment Standards Act, the call-out minimum should be reduced from 4 hours to 2 hours [Clause 7.14 of the Cannery Master Agreement and 7.12 of the Fresh Fish & Cold Storage Agreement (excluding Saturdays, Sundays and Statutory Holidays)]. There should be a "window" for scheduling the regular 8 hour day shift without an overtime penalty, starting one hour earlier at 7 a.m. and continuing up to a quitting time of 6 p.m. Overtime would continue to be paid before 7 a.m. and after 6 p.m. even if the employee had not put in a full 8 hours, with the exception of a start-up crew, which could be called in if necessary at 6 a.m. without penalty.

The regular starting time should continue to be 8 a.m. and the collective agreements should contain a best efforts obligation by management to start the day shift at that time if reasonably possible. Simply because the collective agreement permits a certain latitude does not mean that it should be used routinely, oblivious to the inconvenience to shoreworkers. Where the commencement of work is dependent on the uncertain arrival of fish at the plant, or other foreseeable contingency, the

shoreworker preference for having the shift start at 8 a.m. should be balanced against the cost and inconvenience if they have to wait for fish. A decision to depart from normal scheduling should be made by management only after consultation. The Union should designate a plant representative, who will be available for consultation in advance of the decision to call out the crew, so that the Union can be satisfied of the basis on which the decision is made and can have some input into that decision. The final decision whether to call the crew, and when, remains with management, but only after consultation which explains the factors involved and listens to the Union representative's comments, with a view to considering those comments in making the decision. The consultation does not have to be formal, but it should involve the management personnel actually making the call-out decision, rather than an intermediary, and the consultation should occur before the decision is made.

The success with which management can implement this limited arrangement to the satisfaction of shoreworkers and the Union may influence the prospects of bargaining greater flexibility in the future. The parties should meet to establish appropriate procedures for consultation at each plant to give effect to the consultative process. The best efforts obligation to observe the 8 a.m. start under normal circumstances, and the consultative process, should be noted in the collective agreements in appropriate general language. If the parties have difficulty in reaching agreement on particular language to reflect these terms, the matter can be referred back to the Commission.

I appreciate that these new arrangements may reduce the amount of work which shoreworkers presently perform at overtime rates and, particularly with shorter seasons for plant operations, overtime is important to annual incomes of shoreworkers. At the same time, I think the companies are entitled to organize plant operations in a manner that will keep the cost of overtime to a reasonable minimum. A shoreworker with greater seniority who has completed an 8 hour shift at straight time should not bump a more junior worker on a different job who has not yet completed a full straight time shift, although the senior person should be permitted to continue with his or her own job on overtime rates if that work continues past 8 hours. Overtime should not be looked upon as an entitlement under the collective agreements, and the parties should try to find more productive ways to extend employment and shoreworker annual incomes. One way to do that would be to process more groundfish in the various plants but, as discussed elsewhere, it will require more flexibility on the part of the Union with respect to work practices and incentive pay.

The Union should recognize that the companies will operate at a loss for 1990, and their profitability over the last ten years has been inadequate. This despite commendable efforts by management to improve the efficiency of their operations and the quality of their products. Particularly in these straightened circumstances, the companies should not be required to pay costs unrelated to productive effort.

The parties have been unable to agree on the minimum number of hours constituting a vacation year for the purpose of the calculation of vacation pay entitlements pursuant to the collective agreements. The FPBA has proposed a minimum of 1000 straight time hours and the Union has proposed 120 hours. In my opinion, the minimum should be set at 500 hours, cumulative and including overtime hours. Overtime hours are to be included as simple hours, not at time and a half or double time multiples.

The FPBA has made a number of other specific requests for changes in the collective agreements, mostly for cost cutting reasons. I do not think that additional concessions are required at this time by the impact of the GATT ruling and, while some of the other proposals may have merit, they should be addressed in the normal give and take of future collective bargaining. As stated above, I think the best longer term strategy for both management and Union is the joint development of ways to work smarter for mutual benefit, and the specific measures set out above are intended to give the parties a nudge in that direction.

COLLECTIVE BARGAINING

Like other elements of the industry, the pattern of collective bargaining has been dominated by the timing of the annual runs of herring and salmon. Traditionally, collective agreements have been for a one year term, expiring in mid-April. This places maximum pressure on the parties to reach an agreement as, if a lengthy strike or lockout occurs, the runs could be lost. The crucial importance of the approach of the annual runs often causes bargaining to be concluded in a crisis atmosphere with settlement achieved frequently at the eleventh hour. This has placed emphasis on settlement of the most important issues and a tendency to defer others, which then become a source of continuing frustration. Even the issues that are settled may be resolved by a "compromise of necessity" without any real meeting of the minds of the parties. The relationship between the Union and the Association

has been strongly adversarial, and there has been a lack of real communication in bargaining over a wide range of concerns.

In 1989 the parties reached an impasse and suffered a 16 day work stoppage that was very costly to both sides. That experience has prompted some soul searching and a desire to establish bargaining arrangements that will help to avoid such ruinous confrontations in the future. The 3 year term of the present contract has given the parties an opportunity to reflect and search for a better alternative.

Changing attitudes put both management and the Union under pressure to redefine their relationship at the plant floor level. That will not be easy but it is going to be essential. In particular, management should not allow frustration at perceived Union intransigence to cause it to try to by-pass the Union and deal directly with employees without the Union. Such an approach is likely to increase hostility and bitterness and make the relationship more adversarial. But the Union should recognize that there is some force to the Association's contention that technology is mobile. Finding new ways to work smarter is going to be a continuing necessity if shoreworker jobs and living standards are to be maintained and improved.

In my opinion, it is essential that management maintain a clearly defined role for the Union in its initiatives and, through consultation, ensure that it is a role with which the Union is comfortable and which permits the Union to perform its function as the shoreworkers' representative. I do not minimize the difficulties facing the parties in such an evolution, and it can only succeed if there is a much better level of communication and mutual trust and understanding between management and Union representatives than presently exists in most plants. One should not over-generalize because management and Union clearly have a much better rapport in some plants than in others, and the plants which do have a reasonably good relationship could be instructive to the others.

SUPPLEMENTAL INCENTIVE COMPENSATION

The companies want to introduce supplemental compensation arrangements into their plants which would reward increased shoreworker productivity with higher pay. The companies contemplate a variety of possible arrangements linked to individual or group productivity. They indicate they are prepared to consult their employees about the design and implementation of these arrangements.

There is no mention of consultation with the Union.

There have been significant technological changes in the plants which have enhanced productivity and reduced the unit cost of labour. The salmon canning process has become substantially "machine driven". The companies have had less success in aspects of their operations that are less amenable to new technology and still depend on hand labour. Roe popping and groundfish are the most prominent examples. It is in such operations that the disparity between U.S. and B.C. wage rates really hurts because the companies have not been able to offset higher wages with technological innovation. The companies contend that productivity is inadequate, and they require an incentive compensation arrangement to replace or supplement the existing hourly rates to encourage higher output.

I accept the conclusion that labour costs of some operations, by their very nature, cannot be significantly reduced with today's technology, and there the companies face the greatest risk of becoming non-competitive. I recognize the companies frustration at perceived Union intransigence on the issue of supplemental pay schemes. The most acute problem is groundfish, and groundfish is beyond the Commission's terms of reference. Union jobs in groundfish processing are likely to continue to erode without changes in the workplace to improve productivity and the Union ought to show greater flexibility. The Union historically has been opposed to piecework rates, but it should be, at a minimum, prepared to explore other possibilities, such as profit sharing, or supplementary incentive compensation linked to group rather than individual performance. Groundfish processing remains sufficiently hand-labour intensive that some form of incentive compensation arrangement is necessary to obtain levels of productivity which are adequate to meet the competition. Clinging to the status quo in roe popping, as concluded earlier, is likely to hasten the replacement of shoreworker jobs with machines.

The Union has legitimate concerns about incentive schemes, but these concerns should be capable of being met under arrangements designed through consultation between Union and management. A properly designed scheme has the potential to increase productivity and shoreworker job satisfaction together. The work, roe popping in particular, is inherently unpleasant, and I think shoreworkers should have positive incentives related to productivity to motivate performance. This does not necessarily have to be on a piecework system and incentive schemes could be related to the productivity of employees as a group.

Discussions between Union and management with a view to increasing production through incentives will also have to consider ways of minimizing the incidence of repetitive motion injuries. The Point Adams Packing Co. study suggests that such injuries are more frequent among inexperienced workers who do not use the correct knife angle in cutting fish and suffer strain as a result of additional force required at the wrong angle. Better training of new filleters may help to minimize the problem. A very sharp knife with a handle that fits the hand also seems to be important. But, in my opinion, management is correct in its view that additional incentives are required, even if it takes appropriate steps to improve morale through sympathetic response to shoreworker concerns. Incentives, training, and workplace amenities probably need to be discussed concurrently on a plant by plant basis.

A successful incentive plan requires Union participation in both planning and implementation. The companies should resist the temptation to attempt to go around the Union and negotiate directly with their employees in the absence of Union representatives. Success in negotiations between management and Union probably requires a better level of mutual trust and understanding than presently exists in most plants. But there is at least one plant that has a good management/Union relationship, and it might be desirable to start first with that plant as a pilot project and build later on that experience. If the Union is not prepared to negotiate some incentive arrangements, it is likely to accelerate job losses through mechanization. Roe popping machines may come ultimately in any event, but their introduction is likely to be accelerated if the Union's position remains uncompromising. And the future of Union certified groundfish operations will be bleak indeed.

PENSION PLAN

The collective agreements in force make provision for a voluntary pension plan for unionized shoreworkers. After the initial qualifying period, the employee contributes 5% of earnings and the company contributes an additional amount sufficient to provide the employee at the normal retirement date (usually age 65) with an annual pension equal to 1.5% of earnings subject to contribution. For earnings subject to Canada Pension Plan contributions, the percentage of earnings contributed reduces to 3.5% and the annual pension equivalent to 1.05%. The precise amount of the company's contribution presumably depends on an actuarial calculation and the defined benefit nature of the pension scheme raises at least the possibility of unfunded pension obligations.

Apparently very few employees belong to the pension plan, for reasons that are not entirely clear. The plan does not seem to have been well publicized over the years and it is poorly understood generally. The pension is tied to earnings over the whole contributory period of employment rather than related to more recent earnings, such as the last five years, which would give a greater measure of inflation protection. The extent of the companies' contribution is not apparent and may be minimal, particularly during periods of high interest rates.

The companies wish to keep the existing pension plan with improved standards of eligibility. The Union wants a new plan with defined benefits administered by Union appointed trustees but funded entirely by company contributions.

Pension arrangements should complement the intended employer/employee relationship. Here the companies' objective is a workforce that is stable, skilled, experienced and committed to the success of the industry over the long term. An appropriate pension plan should reinforce those objectives by providing reasonable financial security to those who meet those requirements, on the basis of shared cost.

In my opinion, the nature of the fish processing industry, and the financial risks inherent in it, make a defined benefit pension plan undesirable. The employees' pension rights, at least until they actually retire, under the existing plans are dependent upon their employer's continued ability to meet its financial obligations in the future. Particularly if there should be unfunded pension obligations the risk could be significant. The existing plan is also unsatisfactory in terms of its limited inflation protection and the inability of employees to determine the amount of the employer's contribution. The Union's proposal also acknowledges some risk of inability to finance projected benefits which could cause pensions to be scaled back. Nor does it clearly delineate investment performance which, in my opinion, should be clearly identified so that it can be evaluated by plan members on a regular and continuing basis.

A new pension plan should be established in 1991. This plan should be as easy to understand and as risk free as possible. In my opinion, it should be shared cost to reflect a shared responsibility for pensions. With those objectives in mind, the plan is to be a money purchase plan with equal contributions by the employer and employee of 3.5% of earnings. The contributions of both employer

and employee, together with any accumulated interest, will vest immediately.

The plan is to be compulsory, except for those employees who are members of an existing company plan. Members of the bargaining unit are to be eligible for the plan at the beginning of the calendar year following the year in which the employee has reached 1000 cumulative hours of service. Because the plan will be money-purchase and not defined-benefit, there should be no age limit on eligibility. Employees who are members of an existing pension plan are to be granted the option of continuing with that plan or transferring to the new plan. In the latter event, the employer will contribute to the new plan the fully funded value of the prospective pension benefit under the old plan as at the date of transfer, or the employee's contributions with interest, whichever is greater.

The plan is to be available to those employees within shoreworker bargaining units involved in this inquiry. An employee who changes employers within the industry after becoming eligible for the plan shall retain that eligibility with his new employer and will not have to re-qualify. Extension of the plan to members of other Union bargaining units is not within the terms of reference of this inquiry and is a matter for future negotiation between the parties.

The plan should be administered by not less than three trustees appointed by the Union. The investment powers of the trustees are to be in line with those for other prudently managed employee pension plans. The trustees should be given the power to employ professional management in making investment decisions. If the parties have difficulty in defining those investment powers, the powers granted to the trustees of the University of British Columbia Faculty Pension Plan can be referred to for guidance. The trustees are to be obliged at least annually to provide each employee, who is a member of the plan, with a statement disclosing the current value of the employee's interest in the plan. Amendments to the plan are to be made with a two thirds majority vote of plan members, present and voting. No amendment to the plan which has the effect of creating unfunded obligations of the plan shall be made without the consent of the FPBA or its successors.

The plan is to be established before the end of 1991 so that contributions to the plan from the pension trust fund can be made before year end. Under normal circumstances, it would have been desirable to commence regular contributions to the plan in 1991 as well. However, the companies ask for a delay in implementation, because of the very serious and unexpected losses they face this year as a

result of deteriorating market conditions for salmon. This has forced them to freeze or cut management salaries, and to reduce management ranks substantially in some cases. They are concerned about any increase in cost under these conditions, and particularly a further increase on top of the $0.75 per hour wage increase taking effect April 16, 1991. It is not only the increase itself, but the adverse impact on morale of management and staff who are facing frozen compensation or cuts, that is the cause for apprehension. In my opinion, the present exigencies should be recognized by deferring the commencement of regular contributions until after the bulk of the 1991 salmon season has been completed. Accordingly, contributions of 3.5% of earnings each from employer and employee shall be made to the plan starting September 1, 1991. It will be necessary to prepare and register the pension agreement, as well as make provision for plan administration, before contributions are remitted to the trustees. Hopefully, the parties can coordinate their computer programs to minimize the cost of administration.

DISPOSITION OF THE PENSION TRUST FUND

The pension trust fund was established several years ago with contributions of $0.13 per straight time hour, originally intended as a share of savings in labour costs resulting from the installation of Coastline type salmon gutting machines. These contributions have been accumulating in a designated account pending the parties' agreement as to ultimate disposition. The amount accumulated to April 15, 1991 is estimated by the Union to be almost $2,200,000. The FPBA suggests this sum should be rolled over into the Shoreworkers' Benefit Fund or, alternatively, allocated to pension benefits for senior employees. The Union suggests the fund be part of its proposed new employer funded pension plan with defined benefits.

The sum involved is not large when viewed against the total number of shoreworkers. However, it is increasing, and disposition may become more troublesome the longer it is left undecided. I am of the opinion that the Shoreworkers' Benefit Fund should be self sustaining without the benefit of these funds and that a purpose relating to retirement is a more appropriate designation. It is going to be the older, more senior employees, who will bear the brunt of the absence of a comprehensive pension plan in the industry to date. For that reason, and because the benefit of the fund will be modest, even if limited to a relatively small group, the fund should be allocated exclusively to those employees 55 years of age and older. The age and service table submitted by the Union indicates that there will be

approximately 500 shoreworkers eligible to participate under this criterion. The balance in the fund should be paid into the new pension plan on that basis on behalf of those employees. Any arrears on contributions to the fund by the companies should be paid promptly, together with interest on the outstanding balances from time to time at the prime rate of a Canadian chartered bank jointly agreed to by the parties or, failing agreement, the Royal Bank of Canada.

Within the eligible group the fund accumulated in each year should be allocated rateably to years of service. Thus, for example, an eligible employee with 20 years of service will receive $2.00 for each $1.00 received by an eligible employee with 10 years of service. Eligibility will be determined annually as of a convenient date. Consequently, an employee who was not eligible in 1989, but became eligible in 1990, would share in the 1990 and subsequent allocations (until retirement) but not in the fund accumulated in earlier years. Retired employees who were employed in any year in which contributions to the fund were made are to be entitled to share in the contribution for that year or years on the same basis as current employees.

Any change in the amount of the hourly contribution of $0.13 per straight time hour is to be left to the parties in the next set of contract negotiations.

SHOREWORKERS' BENEFIT FUND

The Union has requested an increase in contributions to the Shoreworkers' Benefit Fund of $.04 cents per straight time hour effective April 16, 1990 and a further $.02 cents effective April 16, 1991. The Fund has been unable to provide any increase in benefits and the current rate of contributions is insufficient to cover benefits at current levels. In my opinion, the Fund should be self-sustaining and should be put in a position to provide a modest increase in benefits. Accordingly, it is directed that contributions to the Fund be increased by $.06 cents per straight time hour as of April 16, 1991.

SUMMARY OF AMENDMENTS TO THE COLLECTIVE AGREEMENTS

The following is a summary of amendments to the collective agreements in force which are binding on the parties as a result of this report. All amendments are to be effective April 16, 1991 except the provisions dealing with the pension plan and pension trust fund which are to be effective as set out in

those sections of this report.

1. There are to be no changes to wages or benefits as a result of this report except those required to give effect to the pension plan and the increase in the Shoreworkers Benefit Fund.

2. The shift scheduling and call out provisions of the collective agreements are to revised as set out in the section of this report under the heading 'Flexibility in Shift Scheduling'.

3. There will be a pension plan funded by equal contributions of employers and employees as set out in the pension plan section of this report.

4. The pension trust fund is to be allocated to members eligible for the pension plan aged 55 and older on the basis of the allocation formula set out.

5. A vacation year for the purposes of the vacation pay entitlements of collective agreements is defined as a minimum of 500 hours.

6. Contributions to the Shoreworkers' Benefit Fund are to be increased by $.06 per straight time hour.

CONCLUDING COMMENTS

The changes to the collective agreement directed in this report, in my opinion, are commensurate with the threat to the viability of the industry and the job security of shoreworkers posed by the GATT ruling and the revisions to regulations resulting therefrom. The threat of U.S. competition is real but it should be kept in proportion. In my opinion, it can be adequately met by measures other than an extension of the probation period for new employees or any reduction in wage rates.

The parties have taken the path of cost reduction through technological innovation and working smarter, and they have achieved considerable success. There is more that can be accomplished in that direction, particularly through cooperative and consultative management. The specific measures directed by this report are intended to assist that process. The Union should recognize that the price to be paid

for wages above the competition is staying ahead of the competition in shoreworker productivity. Continuing increases in productivity can be accompanied with improved job satisfaction for shoreworkers if management and Union work together. The companies' sense of urgency is genuine and the Union response to date has been too passive, contributing to the companies' frustration. At the same time, management needs to recognize more clearly than it appears to now that the Union is a representative organization, and if there are unhappy shoreworkers in a plant that unhappiness is going to be reflected by their Union spokesmen. It is very hard for the Union to move on management's agenda if the atmosphere in the plant is sour. Both sides occasionally need to look at problems from the other's point of view.

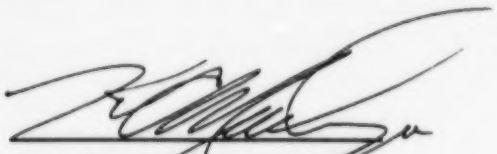
A report of a commission of inquiry inevitably takes on a negative tone. It has to deal with the problems of an industry, and ignores aspects that have gone right. In an attempt to restore some sense of balance, let me observe that my contact with the fish processing industry has persuaded me that it is efficient and quality conscious. It is entitled to take a justifiable pride in giving full value for dollars spent. Visiting a cannery at the height of the salmon season, one cannot help but be impressed at the ability of the industry to receive and process immense quantities of fish in a very short time, turning out products deserving of the industry's reputation for high quality. That is a tribute to management, and it is also a tribute to shoreworkers and their willingness to work conscientiously over long hours.

I do not think the companies should be defensive about a realistic processing margin. They run efficient plants. Profit margins are a small percentage of total cost of production, averaging 3.6% of cost between 1985 and 1989, and for at least 10 years they have been too low for the long term viability of the industry. Nor are shoreworkers wage rates unreasonable. The processing sector gives full value for its margin and shoreworkers have paid a price in jobs for the present level of productivity and efficiency.

I have concluded that the economics of the salmon and herring fisheries are fundamentally sound and both the harvesting and processing sectors should have a bright future. The present difficulties are due primarily to a misallocation of the value of the fish, which encourages over investment in the harvesting sector and squeezes the margin available for processing. This problem will have to be addressed, and the Union in particular has an essential educational and consultative role because it represents both fishermen and shoreworkers. The Union also has an important public voice which can add force to

efforts by the industry to improve management and enhancement of the resource. The FPBA members and the Union have vital interests in common, and they need to build a relationship from the plant floor up which will allow them to pursue those interests together. If they do so, then the threat posed by American processors should be contained without sacrificing either reasonable wages or profit margins.

Dated at Vancouver, British Columbia, April 15, 1991.



K. C. Mackenzie, Commissioner

Province of
British Columbia

NEWS RELEASE

Ministry of Labour
and Consumer Services

April 22, 1991

Inquiry Report on Fishing Processing Industry Released

VICTORIA -- Labour and Consumer Services Minister James Rabbitt today released the Mackenzie Inquiry Commission report on the fish processing industry which found that although the U.S. competition is real, the industry is efficient and should be able to meet the challenge successfully.

Rabbitt said: "The commission was established at the request of the United Fishermen and Allied Workers Union and the Fish Processors Bargaining Association, in order to help resolve a 16-day work stoppage in the summer of 1989 which was extremely costly to both sides."

Commissioner Ken Mackenzie's inquiry considered the threat to the viability of the industry and to the job security of shoreworkers posed by the GATT ruling. The inquiry also reviewed a number of outstanding contract issues.

The commission concluded that:

- The threat of U.S. competition should be kept in perspective. Even before the GATT ruling, companies consistently paid too much for landed fish to earn an adequate return. GATT could make the problem worse by adding another competitive element, but the companies must deal with the underlying problem.
- The union and processors have considerably reduced costs through technological innovation. More cost reduction could be achieved through cooperation and consultative management.

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- The salmon and herring fisheries are fundamentally sound and both the harvesting and processing sectors should have a bright future.

The commission also made a number of amendments to the collective agreement which are binding on the parties. These include:

- A new pension plan funded by equal contributions of employers and employees.
- Revisions to the shift scheduling and call out provisions.
- No changes to wages or benefits as a result of the report except those required to give effect to the pension plan and the increased Shoreworkers Benefit Fund.

Rabbitt said: "Both the Fish Processors and the UFAWU should be commended for their realistic approach to settling the 1989 strike and for their commitment to developing a more cooperative collective bargaining process in the future.

"The commission has concluded that, by working together, the Fish Processors and the UFAWU can building a strong, competitive industry which benefits both employers and employees. The joint request for a commission of inquiry was the first step in building a more cooperative approach to addressing industry problems."

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